2004

SaskPower International Financial Statements

A Subsidiary of SaskPower

105-04324/

Report of Management

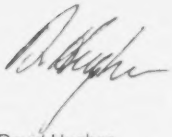
The consolidated financial statements of SaskPower International Inc. are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The preparation of consolidated financial statements necessarily involves the use of estimates based on management's best judgement, particularly when transactions affecting the current period cannot be finalized with certainty until future periods. In management's opinion, the consolidated financial statements have been properly prepared within the framework of selected accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, information available up to February 4, 2005.

Management maintains appropriate systems of internal control which provide reasonable assurance that the Corporation's assets are safeguarded and appropriately accounted for, that financial records are relevant, reliable and accurate and that transactions are executed in accordance with management's authorization. This system includes corporate-wide policies and procedures, as well as the appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these controls on an ongoing basis and reports its findings to management and the Audit and Finance Committee of the Board of Directors.

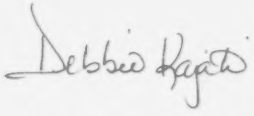
The Board of Directors, through the Audit and Finance Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit and Finance Committee consists entirely of outside directors. At regular meetings the Committee reviews audit, internal control and financial reporting matters with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities. The consolidated financial statements and the external auditors' report have been reviewed by the Audit and Finance Committee and have been approved by the Board of Directors. The internal and external auditors have full and open access to the Audit and Finance Committee, with and without the presence of management.

The consolidated financial statements have been examined by Deloitte & Touche LLP, Chartered Accountants. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report, which follows, outlines the scope of their examination and sets forth their opinion.

On behalf of Management,



David Hughes
President and Chief Executive Officer
February 4, 2005



Debbie Kajati
Manager, Finance & Administration

Auditors' Report

To the Members of the Legislative Assembly of Saskatchewan

We have audited the consolidated statement of financial position of SaskPower International Inc. as at December 31, 2004, and the consolidated statements of income and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Regina, Saskatchewan
February 4, 2005

Consolidated Statement of Income and Deficit
(in thousands)

For the year ended December 31	2004	2003 (Restated – Note 3)
Revenue		
Electric sales	$ 17,236	$ 15,871
Flyash sales	3,958	3,390
Consulting and contract services	638	593
Other	3	5
Total revenue	21,835	19,859
Expense		
Cost of sales – flyash	2,474	2,092
Cost of sales – consulting and contract services	599	555
Operating, maintenance and administration	5,044	4,906
Depreciation	4,617	4,360
Saskatchewan capital tax	683	631
Finance charges	7,188	6,985
Total expense	20,605	19,529
Income before equity investment income	1,230	330
Equity investment income	30	1,565
Net income	1,260	1,895
Deficit, beginning of year	(3,052)	(4,947)
Deficit, end of year	$ (1,792)	$ (3,052)

See accompanying notes

Consolidated Statement of Financial Position
(in thousands)

As at December 31	2004	2003 (Restated - Note 3)
Assets		
Current assets		
Cash (Note 12)	$ 11,243	$ 6,880
Accounts receivable	2,218	2,020
Other	292	341
	13,753	9,241
Property, plant and equipment (Note 4)		
Property, plant and equipment	135,756	134,976
Less: Accumulated depreciation	8,842	4,328
	126,914	130,648
Construction in progress	29,917	520
	156,831	131,168
Other assets		
Long-term investment (Note 5)	25,460	25,430
Other assets (Note 6)	19,590	2,121
	45,050	27,551
Total assets	$ 215,634	$ 167,960
Liabilities and equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 2,824	$ 3,328
Current portion of non-recourse long-term debt (Note 7)	2,480	1,900
	5,304	5,228
Non-recourse long-term debt (Note 7)	92,620	95,100
Other liabilities (Note 8)	49,385	567
Total liabilities	147,309	100,895
Equity		
Share capital (Note 9)	70,117	70,117
Deficit	(1,792)	(3,052)
Total equity	68,325	67,065
Total liabilities and equity	$ 215,634	$ 167,960

Commitments (Note 16)

See accompanying notes

On behalf of the Board:

Patricia A.G. Quaroni, LLB
Chair

Lyn Kristoff, CA
Director

Consolidated Statement of Cash Flows
(in thousands)

For the year ended December 31	2004	2003 (Restated - Note 3)
Operating activities		
Net income	**$ 1,260**	$ 1,895
Non-cash items included in income		
Depreciation and amortization	**4,718**	4,457
Equity investment income	**(30)**	(1,565)
Net change in non-cash working capital (Note 11)	**(445)**	(16)
Cash provided by operating activities	**5,503**	4,771
Investing activities		
Property, plant and equipment	**(30,246)**	(7,192)
Prepaid expense	**(17,570)**	–
Net change in non-cash working capital (Note 11)	**3,006**	(5,072)
Investment in MRM Cogeneration Station	**–**	(1,929)
Cash used in investing activities	**(44,810)**	(14,193)
Financing activities		
Repayment of other current liabilities	**–**	(704)
Issue of common shares (Note 9)	**–**	11,864
Proceeds from advance	**45,570**	–
Repayment of non-recourse long-term debt	**(1,900)**	–
Cash provided by financing activities	**43,670**	11,160
Increase in cash	**4,363**	1,738
Cash, beginning of year	**6,880**	5,142
Cash, end of year	**$ 11,243**	$ 6,880
Supplemental information:		
Cash paid for interest	**$ 7,153**	$ 7,273
Cash paid for taxes	**510**	876

See accompanying notes

Notes to the Consolidated Financial Statements
As at December 31, 2004

1. Status of the Corporation

SaskPower International Inc. (the "Corporation"), a wholly-owned subsidiary of Saskatchewan Power Corporation ("SaskPower"), was incorporated pursuant to *The Business Corporations Act (Saskatchewan)* effective September 15, 1994, and was registered in the Province of Alberta on September 10, 1999. Accordingly, the financial results of the Corporation are included in the consolidated financial statements of SaskPower.

SaskPower International, as a participant in the Cory Cogeneration Station joint venture, receives all electric sales revenue from SaskPower.

As a subsidiary of a provincial Crown corporation, the Corporation is not subject to federal income tax, provincial income tax or federal large corporations tax.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered significant:

a) Use of Estimates

The timely preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Actual results could differ from those estimates which may impact the actual results reported in future periods.

b) Joint Ventures

The Corporation accounts for its joint venture interests using the proportionate consolidation method.

c) Long-term Investment

The Corporation accounts for investments over which it exerts significant influence using the equity method. The investment is initially recorded at cost and the carrying value adjusted thereafter to include the Corporation's proportionate share of post acquisition earnings of the investment and cash distributions.

d) Foreign Currency Translation

Revenues and expenditures resulting from transactions in foreign currencies are translated to Canadian dollars at the exchange rates in effect at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated using the exchange rate in effect on the balance sheet date. Any resulting foreign currency translation gains and losses are included in the consolidated statement of income and deficit in the current period.

e) Property, Plant and Equipment

Property, plant and equipment is recorded at cost and includes material, direct labour, overhead costs and interest costs incurred during construction.

Assets under construction are recorded as construction in progress until they are operational and available for use, at which time they are transferred to property, plant and equipment.

Depreciation is calculated on a straight-line basis over the estimated service life of the related asset. The estimated service life of cogeneration assets is 30 years.

Depreciation expense also includes the gain or loss on both the complete and partial disposal of assets as well as accretion expense on asset retirement obligation as discussed in *Note 2 (g)*.

f) Asset Impairment

The Corporation evaluates its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. An impairment is recognized when the carrying amount of an asset exceeds the undiscounted projected future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value. As at December 31, 2004, the Corporation determined that there was no impairment of assets.

g) Asset Retirement Obligation

The Corporation recognizes asset retirement obligations in the period they are incurred if a reasonable estimate of fair value (net present value) can be determined. The Corporation recognizes asset retirement obligations to decommission its cogeneration facilities in the period in which the facilities are commissioned. (See *Note 3*)

The fair value of the estimated asset retirement costs is recorded as a liability in other liabilities with an offsetting amount capitalized and included as part of property, plant and equipment. The asset retirement obligations are increased annually for the passage of time by calculating accretion (interest) on the liability while the offsetting capitalized asset retirement costs are depreciated over the estimated useful life of the related asset. The accretion expense is calculated using an interest rate that equates to a risk-free interest rate adjusted for the credit standing of the Corporation and is included with depreciation expense. (See *Note 8*)

The calculations of fair value are based on detailed studies that take into account various assumptions regarding the anticipated future cash flows including the method and timing of decommissioning and estimates of future inflation.

h) Debt Issue Costs

Issue costs relating to non-recourse long-term debt are amortized on a straight-line basis over the term of the respective debt and are included in other assets.

i) Hedging

In conducting its business, the Cory Cogeneration Station Joint Venture has entered into an interest rate swap to manage the risk arising from fluctuations in interest rates. This instrument is only used to manage risk and is not used for trading or speculative purposes. The interest rate swap is designated as a hedge and the effectiveness of the swap in offsetting the change in cash flows of the hedged item is assessed on an ongoing basis. Payments or receipts on the swap are recognized concurrently with, and in the same financial category as, the hedged item.

j) Revenue Recognition

The Corporation uses the percentage of completion method to recognize revenue from long-term consulting and contract services. Other consulting and contract service revenue is recognized when services are rendered. Electric and flyash sales revenue is recognized upon delivery to the customer.

k) Employees' Future Benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. Under the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to income. Defined benefit pension plan benefits are provided by SaskPower to eligible employees.

The Corporation provides defined contribution and defined benefit severance plans for substantially all employees. The Corporation's obligations are limited to making regular contributions to SaskPower in respect of severance plan benefits.

The Corporation provides a supplementary superannuation plan for certain management employees who elect to forego their entitlement to banked days off. The Corporation's current period expense is limited to yearly notional contributions to the plan based upon the employee's salary and an amount allocated for interest on the employee's plan balance.

3. Change in Accounting Policy (in thousands)

Effective January 1, 2004, SaskPower International adopted the Canadian Institute of Chartered Accountants ("CICA") section 3110 "Asset Retirement Obligations." Under the section, the Corporation is required to recognize the fair value (present value) of the total estimated future decommissioning costs when the assets are put into service.

Accordingly, SaskPower International recorded an asset retirement obligation for its cogeneration facilities as the Corporation is required to remove the facilities at the end of their useful lives and restore the plant sites to their original condition.

The impact of this change in accounting policy on the prior year's financial statement was:

Impact of Accounting Change Increase/(Decrease)	2003
Depreciation	$ 50
Equity investment income	(14)
Net income	(64)
Property, plant and equipment, net	517
Long-term investment	(14)
Other liabilities	567
Deficit, end of year	(64)

4. Property, Plant and Equipment (in thousands)

	2004	2003 (Restated – Note 3)
Cogeneration plant (Cory Cogeneration Station)	$ 135,756	$ 134,976
Accumulated depreciation	8,842	4,328
Construction in progress	29,917	520
Net book value	$ 156,831	$ 131,168

Construction in progress pertains to the 150-MW wind power project at Rushlake Creek.

Included in the current year are interest costs of $561 ($302 in 2003).

5. Long-Term Investment (in thousands)

In 2001, the Corporation acquired an ownership interest in the MRM Cogeneration Station. The 170-megawatt natural gas-fired cogeneration plant is located at the Athabasca Oil Sands Project's Muskeg River Mine, north of Fort McMurray, Alberta. The cogeneration plant commenced commercial operations January 2003.

Ownership interests in the MRM Cogeneration Station are as follows:

- ATCO Power Canada Ltd. 56%
- SaskPower International Inc. 30%
- ATCO Resources Ltd. 14%

Certain accounting policies used in the preparation of the financial statements of MRM Cogeneration Station differ from those used in the Corporation, and therefore, adjustments have been made to the reported income of the investee to maintain reporting consistency.

	2004	2003 (Restated – Note 3)
Equity investment, beginning of the year	$ 25,430	$ 21,936
Equity advances	–	1,929
Equity investment income	30	1,565
Equity investment, end of year	$ 25,460	$ 25,430

6. Other Assets (in thousands)

	2004	2003
Prepaid expense	$ 17,570	$ –
Deferred finance charges	2,020	2,121
	$ 19,590	$ 2,121

Prepaid expense includes funds held in escrow in accordance with the terms of the Turbine Supply and Installation Agreement for the wind power project at Rushlake Creek.

7. Non-Recourse Long-Term Debt (in thousands)

Debentures payable are based on the following terms and rates:

	2004	2003
Notes at 7.586%, repayable in quarterly payments ending December 31, 2025.	$ 47,700	$ 48,500
Notes at 7.601%, repayable in quarterly payments ending June 30, 2026.	42,150	42,500
Term loan based on Banker's Acceptance rates plus a margin of 1.125%, repayable in quarterly payments ending December 31, 2011.	5,250	6,000
	95,100	97,000
Less current portion of non-recourse long-term debt	2,480	1,900
Non-recourse long-term debt	$ 92,620	$ 95,100

These debentures are issued in the name of Cory Cogeneration Funding Corporation. The Corporation also has $2.5 million available under an Operating Facility. The notes and term loan are secured by a debenture on each Owners' ownership interest in the Project's assets, an assignment of the Project's bank accounts and an assignment of all the Project Agreements.

Maturities (in thousands)

As at December 31, 2004, scheduled debt retirement requirements for the next five years are as follows:

	2005	2006	2007	2008	2009
Non-recourse long-term debt	$ 2,480	$ 2,780	$ 3,080	$ 3,380	$ 3,680

8. Other Liabilities (in thousands)

	2004	2003 (Restated – Note 3)
Advances from SaskPower	$ 46,243	$ –
Contractors' holdbacks	2,540	–
Asset retirement obligation	602	567
	$ 49,385	$ 567

Advances from SaskPower (in thousands)

In October 2004, the Corporation entered into an interim loan advance agreement, payable on demand, for the issue of up to $250,300 at the rate of 8.6% per annum.

Asset Retirement Obligation (in thousands)

A reconciliation between the opening and closing asset retirement obligation balance is provided below:

	2004	2003
Asset retirement obligation, beginning of year	$ 567	$ 535
Liabilities incurred in the period	–	–
Liabilities settled in the period	–	–
Accretion expense	35	32
Asset retirement obligation, end of year	$ 602	$ 567

SaskPower International estimates the undiscounted amount of cash flows required to settle the asset retirement obligation is approximately $3,108, which will be incurred in 2032. A discount rate of 6.04% was used to calculate the carrying value of the asset retirement obligation. No funds have been set aside by the Corporation to settle the asset retirement obligation.

9. Share Capital (in thousands)

	#	2004	#	2003
Authorized				
Unlimited Class A non-cumulative, voting common shares				
Issued				
Class A				
Issued and outstanding, beginning of year	**70,117**	**$ 70,117**	58,253	$ 58,253
Issued during the year for cash	–	–	11,864	11,864
Issued and outstanding, end of year	**70,117**	**$ 70,117**	70,117	$ 70,117

All shares are held by the parent corporation, SaskPower.

10. Financial Risk Management

By virtue of its operations, the Corporation is exposed to changes in interest rates. Effective March 31, 2003, a floating to fixed rate swap was used to reduce interest rate exposure on the Cost Overrun Facility and is carried at nil book value.

Financial Instruments (in thousands)

The fair value of the Corporation's financial instruments reflect market estimates of the amount that the Corporation would pay to terminate contracts at the end of the year. They are not a result of market transactions. Changes in assumptions, economic conditions and other factors could cause significant changes in the fair value estimates.

The following summarizes the fair value of the Corporation's financial instruments at year-end:

As at December 31	2004		2003		
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Repricing or Maturity Date
Non-recourse long-term debt	**$ 95,100**	**$ 106,124**	$ 97,000	$ 104,646	2011-2026
Interest rate swap	**Nil**	**249**	Nil	259	2011

Fair values are determined as follows:

(a) non-recourse long-term debt instruments are valued at year-end market prices for similar instruments.

(b) interest rate swap is valued at closing year-end market rates.

The carrying values of all other financial instruments including cash accounts receivable, accounts payable, accrued liabilities, and other liabilities approximate fair value due to the short period to maturity.

11. Net Change in Non-Cash Working Capital (in thousands)

	2004	2003
Operating activities		
Accounts receivable	**$ (196)**	$ (1,219)
Other current assets	**50**	(312)
Accounts payable and accrued liabilities	**(299)**	1,515
	$ (445)	$ (16)
Investing activities		
Accounts receivable	**$ (2)**	$ (194)
Other current assets	**–**	42
Accounts payable and accrued liabilities	**3,008**	(4,920)
	$ 3,006	$ (5,072)

12. Joint Ventures (in thousands)

(a) The Corporation holds a 50% interest in an unincorporated joint venture with ATCO Power Canada Ltd. The joint venture owns and operates a 228-megawatt natural gas-fired cogeneration plant (the "Cory Cogeneration Station") near Saskatoon, Saskatchewan.

(b) The Corporation holds a 50% interest in Cory Cogeneration Funding Corporation ("CCFC"). CCFC was incorporated pursuant to *The Business Corporations Act (Saskatchewan)* effective November 19, 1999, and was registered with the Province of Alberta on December 18, 2000.

CCFC is a special purpose company established by the Corporation and ATCO Power Canada Ltd. (the Owners) to borrow long-term, non-recourse debt to finance the Cory Cogeneration Station. CCFC will act as agents for the Owners, by receiving revenues, disbursing costs (including debt service) and distributing proceeds to the Owners.

(c) The Corporation holds a 14% interest in Canadian Power Consultants ("CPC") with AMEC E&C Services Limited and Acres International Limited, for the purpose of providing services under a consulting contract with Canadian International Development Agency ("CIDA").

The Corporation's interest in joint ventures is summarized below:

	2004	2003 (Restated – Note 3)
Statement of income		
Revenue	**$ 17,072**	$ 15,792
Operating, maintenance and administration	**(3,807)**	(3,629)
Depreciation	**(4,527)**	(4,339)
Finance charges	**(7,264)**	(6,966)
Income from joint ventures	**$ 1,474**	$ 858
Statement of financial position		
Current assets	**$ 3,867**	$ 7,719
Property, plant and equipment	**126,956**	130,669
Deferred finance charges	**2,020**	2,121
Current liabilities	**(3,735)**	(3,930)
Non-recourse long-term debt	**(92,620)**	(95,100)
Other liabilities	**(602)**	(567)
Investment in joint ventures	**$ 35,886**	$ 40,912
Statement of cash flows		
Operating activities	**$ 5,332**	$ 5,493
Investing activities	**(780)**	(11,746)
Financing activities	**(8,400)**	7,574
(Decrease) increase in cash	**$ (3,848)**	$ 1,321

Current assets include cash of $2,045 ($5,893 in 2003), which is only available for use within the joint ventures.

13. Related Party Transactions (in thousands)

Included in these consolidated financial statements are transactions with joint ventures and various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end are as follows:

	2004	2003
Accounts receivable	$ 1,713	$ 1,610
Construction in progress	569	198
Accounts payable and accrued liabilities	595	622
Revenue - electric sales	17,236	15,871
- consulting and contract services	369	320
- other	1	1
Cost of sales	1,949	1,524
Operating, maintenance and administration	1,268	1,320

As per Project Agreements, gas is supplied at no cost by SaskPower in return for power generated. No amounts in respect of this supply have been recorded in these financial statements.

SaskPower provides certain management services to the Corporation for no consideration.

14. Employees' Future Benefits (in thousands)

Included in these financial statements is $192 ($159 in 2003) relating to employees' future benefits expense.

15. Contingencies (in thousands)

The Corporation has issued a promissory note in the amount of $2,737 as acceptable credit support for project lenders in respect of litigation relating to contractor claims for Cory Cogeneration Station. In addition, the Corporation has other various legal matters pending.

In the opinion of management these matters will not have a material effect on SaskPower International's consolidated financial position or results of operations.

16. Commitments (in thousands)

The Corporation has provided a $42 letter of credit to support its obligations under the contract with CIDA through its joint venture, Canadian Power Consultants.

As at December 31, 2004, the Corporation has committed to the construction of the wind power project at Rushlake Creek at an estimated cost of $250,300.

17. Comparative Figures

Certain amounts for the prior year have been reclassified to conform with current year financial statement presentation.

SaskPower International

SaskPower International Inc.
2025 Victoria Avenue
Regina, Saskatchewan
Canada S4P 0S1
saskpowerinternational.com